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Cloak and Dagger

It was the seventh anniversary of the seizure of the American Embassy in Teheran, and Hojatolislam Akbar Hashemi Rafsanjani was exultant. A cloak-and-dagger tale in a Lebanese publication was embarrassing the Great Satan, and the speaker of Iran's Parliament was only too pleased to confirm it. According to the Beirut magazine Al Shiraa last week, five American government officials, including former National Security Council chief Robert C. McFarlane, had flown secretly to Teheran in recent months, bearing gifts. In Rafsanjani's embellishment, some of the gifts were symbolic: a cake in the shape of a key (for opening new ties), a Bible inscribed by Ronald Reagan. There was even a promise of Colt automatic pistols for top Iranian officials. In either version, however, the real offering was startling: a planeload of U.S. military hardware. Iran did not rise to the bait, said Rafsanjani. "We told [them] we do not accept the gifts and had nothing to talk about with them," he said. The Americans, he gloated, "have resorted to us to solve their problem in Lebanon."

The sudden revelation that the United States had been courting the Khomeini regime all but overshadowed last week's joyful homecoming of David Jacobsen, the 55-year-old hospital administrator from California who had been held hostage in Lebanon for 17 months by the Islamic Jihad, a Muslim fundamentalist group with close ties to Iran. Ever since taking office, President Reagan has vowed that the United States will never negotiate with terrorists. He also has pressed other nations for an arms embargo of Iran. Yet for more than a year the White House has secretly permitted shipments of U.S. military equipment to Teheran in return for help in securing the release of Americans kidnapped by Iran's Lebanese allies—and in apparent hopes of someday restoring relations with a potential Middle East superpower.

It was an operation requiring tight control: all save a few senior National Security Council (NSC) officials were kept in the dark about the details, and the Central Intelligence Agency, too, was bypassed, out of concern that a covert CIA-run venture would have to be disclosed to Congress. Since the operation began, Iran has received—mostly through Israeli intermediaries—more than $60 million worth of materiel, including antitank missiles, radar systems and spare parts for Iran's aging fleet of F-4 Phantom jets—all needed for its stalemated war against Iraq.

Presidential muzzle: The seeming violation of the no-negotiations policy disturbed some senior administration officials, however, notably Secretary of State George Shultz. Restrained from direct comment by a presidential muzzle, Shultz made clear his objections in conversation with reporters aboard his plane returning from Vienna arms talks. Others suggested that the promise of military supplies was actually an incentive to further kidnapping: "They'll always want to keep one [hostage] back," said an NSC official. And, despite an emotional plea from Jacobsen that reporters "be responsible and back off" from what he called "unreasonable speculation" about the hostages' plight—a request the press honored—sources in the U.S. government and elsewhere continued to leak details concerning the larger issue: was the secret operation a first step toward the diplomatic rehabilitation of Iran? McFarlane in particular "harped on the need to establish links with Iran," said an Israeli source who worked closely with McFarlane in his NSC days. "He thought it was inadmissible that a country as big and important as Iran should be permanently in an orbit hostile to the West and the United States."

The idea of bargaining arms for hostages first arose sometime in the first half of 1985, NEWSWEEK has learned, when White House aides began to abandon hope of help from Syria. Despite ostensible Syrian control of the east Lebanon territory where Islamic Jihad and other Islamic fundamentalist groups flourish, the fundamentalists—mostly Lebanese Shiite Muslims—look to the Ayatollah Ruhollah Khomeini of Iran as their spiritual leader. Thus, while Syrian President Hafez Assad would get credit for the release of the TWA hostages in June 1985—arranging to fly them home from Damascus—it was Iran that pulled the strings. "We tried the Syrian angle very hard at first, thinking it would be fruitful," said a Reagan aide. "But in the wake of the TWA hostage situation, we realized that Syria didn't have the key. Assad didn't have the key he told us he had."

But even covert relations with a suspicious Teheran do not come easily. According to one State Department source, the administration tried to determine through intermediaries whether Iran's religious leaders would use their influence with the militants in Lebanon to free the hostages. The response, this source said, was "very fuzzy and very negative." In their eyes the United States was still an evil empire. But there was one thing the Iranians wanted very badly, they hinted: spare parts for their fleet of warplanes, purchased from the United States by the late Shah Mohammed Reza Pahlavi and now mostly grounded. Washington, however, was hemmed in by its call for an Iranian arms embargo.

Good-will gesture: At that point, Israel stepped in with a timely offer, NEWSWEEK has learned. David Kimche, a highly respected senior civil servant appointed to Israel's Foreign Ministry as director general, suggested to then Prime Minister Shimon Peres that Israel—as a gesture of good will to the Reagan administration—share its Iranian expertise and contacts. Even after the emergence of the bitterly anti-Zionist Khomeini regime, Israel had kept arms flowing to Teheran—a non-Arab Islamic state with which it tries to maintain a covert working relationship, in part because of Iran's war with Iraq. The Israelis may also have seen a U.S. weapons deal as a cover that would enable them to continue the profitable transactions on their own.

In any event, Kimche suggested that Jacob Nimrodi, 60, a former Mossad agent with long experience in Teheran—he is now a multimillionaire arms dealer operating out of London and New York—make available to Washington his vast contacts in Iran. Peres approved the idea, and Kimche flew to Washington to present the proposal personally to McFarlane, then still at the NSC. McFarlane said yes—more, apparently, out of concern about future U.S.-Iran relations than from enthusiasm for a hostage deal. Another Israeli, American-born Al Schwimmer, 70, who founded Israel Aircraft Industries—manufacturer of Israel's Kfir jet fighter and other sophisticated weaponry—joined the team as liaison with McFarlane. The Israelis also enlisted the services of an Iranian exile named Manucher Ghorbanifar. A close friend of Iranian Prime Minister Mir Hussein Moussavi, Ghorbanifar lives on the French Riviera, maintains an office in West Germany and is one of Iran's prime sources of military supplies.

One senior aide maintains that the president was fully on board. But McFarlane and his freewheeling counterterrorism aide, Marine Lt. Col. Oliver North (page 52), were the point men, and they operated in such tight secrecy that most White House officials, including spokesman Larry Speakes, knew nothing about the weapons-for-hostages scheme at the time. The notion of using Israel as a conduit for funneling spare parts to Iran set off alarm bells among U.S. diplomats and intelligence sources, however, and led to heated clashes between the State Department and the NSC. Secretary of State Shultz was "aware

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of the general outline" of the plan, according to one department source, and expressed his "concern" on more than one occasion. But, as one State Department hand said, "This was an NSC project. State was outraged."

As the professional diplomats saw it, the NSC was in danger of compromising American credibility on several fronts for the sake of a short-term goal: the release of a half dozen hostages. Any deal that became public—and State Department officials prophetically argued that the Iranians could not be trusted to keep a secret—would undermine the U.S. position on not negotiating with terrorists and even spill over into already unsettled relations with Iraq and Syria. At worst, one embittered U.S. diplomat complained, the United States would end by sending Iran hardware for hostages while their Shiite allies kept on "picking up new hostages. It was an ongoing foreign-aid program."

Breach of promise: But the deal apparently went ahead. Working through Ghorbanifar, the Israelis secured the promise of Iran's Prime Minister Moussavi to release one American hostage within 24 hours following the delivery of one planeload of U.S.-made weaponry paid for by the United States. The deal was approved by McFarlane at a meeting with Kimche in London on Sept. 3, 1985. Soon after, the Israelis chartered a DC-8 and loaded it up with TOW antitank missiles, spare parts and ammunition. An Israeli pilot flew it directly to Teheran. But the next day no hostage was released.

After waiting a few days, Nimrodi, who speaks fluent Farsi, placed a direct phone call to Moussavi and complained about the Iranian breach of promise. Moussavi replied that the Iranian government had no control over the hostages, but he promised to try again if Israel would send another planeload of supplies. Nimrodi countered that the deal was one planeload, one hostage. Moussavi balked but said that he would send through Ghorbanifar a check for $10 million in payment of the first shipment. He did so, but the Israelis returned it via another intermediary to emphasize that they insisted on payment in hostages. A second DC-8 flew from Israel to Teheran, and on Sept. 14 a hostage was released: the Rev. Benjamin Weir, a 62-year-old Presbyterian minister kidnapped in Beirut 16 months before. Although the Syrians claimed credit for gaining his freedom, Israeli sources say that Schwimmer and Ghorbanifar actually coordinated with Iranian contacts the time and place of his release.

The Israelis then brokered a third planeload of arms to Iran. Each load was worth $10 million to $15 million at going arms prices. The deals were entirely financed by the United States, which either supplied its own equipment or else compensated the Israelis with new versions of the hardware sent to Teheran. On this occasion, with Israel running low on its own supplies of U.S.-made spare parts, the Americans delivered the equipment directly to a site in Portugal. It was reloaded on a charter jet and flown to Israel for a change of pilots before continuing on to Teheran. Again the Iranians failed to deliver a hostage. Again Nimrodi called Moussavi to complain. Again Moussavi claimed that Iran had no control over the militants in Lebanon.

Despite the apparent foot-dragging, the Iranians were cooperating. When Hizbullah (Party of God) militants failed to deliver Weir after the first plane shipment, the Israelis learned later, Teheran sent armed militiamen—presumably Iranian Revolutionary Guards stationed near Baalbek in the Bekaa Valley—to force the extremists to give up the American. Hoping for a repeat, the Israelis arranged for the shipment of two additional planeloads in November. But at the last minute the White House—apparently frustrated by Iran's frequent stalling tactics—canceled the takeoff.

On Dec. 4 McFarlane resigned from the NSC and was succeeded by Vice Adm. John Poindexter. Around this time Kimche, Schwimmer and Nimrodi, caught in a bureaucratic power play, dropped out of the picture and were replaced by Amiram Nir, the Israeli prime minister's adviser on terrorism. After a brief hiatus, the pace of shipments to Iran picked up under the new team. Under Nir's direction, ships loaded with ground-to-air missiles, ammunition and spare parts shuttled regularly between the Israeli port of Elat and the Iranian port of Bandar Abbas—eventually producing the release of the Rev. Lawrence Jenco, a Roman Catholic missionary, last July. Jacobsen's release last week, according to Israeli sources, was cemented by a shipment of matériel that left Elat only a few days earlier in a ship that "flew no flag."

Pistachio glut: (The shuttle of ships between Elat and Bandar Abbas has produced a curious side effect—a pistachio-nut glut in Israel. Apparently for the sake of the ruse, each ship has returned from Iran with a huge cargo of pistachio nuts for the Israeli market. Since August—sometime after the Danish freighter Ilsa returned to Elat from its fourth trip to Iran with military equipment and spare parts—pistachio-nut prices have dropped by half on the Tel Aviv market.)

Meanwhile, Iran's longstanding factional rivalries seem to be deepening—and this may have triggered last week's revelations of the secret missions. A dispute has developed between the "pragmatists" who are willing to deal with the West and the hard-liners determined to export Iran's Islamic Revolution (box). Rafsanjani, the speaker of the Parliament, is seen as a leading pragmatist. The hard-liners include people close to Ayatollah Hussein Ali Montazeri, Khomeini's designated successor. Chief among them: Mehdi Hashemi, a relative by marriage who has acted as liaison with Iran's terrorist surrogates in Lebanon and elsewhere. He was arrested last month on charges of treason. To strike back at Rafsanjani and the "moderates," some Iran watchers suspect, Hashemi's followers in Lebanon leaked the details about McFarlane's secret flight to the West Beirut magazine Al Shiraa. According to the speculation, Rafsanjani delivered last week's speech taunting the United States in order to throw off suspicion that he consorted with the enemy.

McFarlane refused to give a public account of his reported mission. But Al Shiraa provided a distinctly different version than the humiliating sojourn depicted by Rafsanjani, in which the former high American official was said to have been placed under house arrest for five days, then unceremoniously sent packing. According to Al Shiraa, McFarlane stayed at the Independence hotel—formerly the Teheran Hilton—and met with senior government officials as well as with Mohammed Ali Hadi, chairman of the Iranian Parliament's foreign-affairs committee. White House sources confirm that McFarlane traveled to Teheran at least once, though the date is in dispute. Some sources say he went in May, others say that it was in September—and that he did indeed travel aboard a plane carrying military equipment, as Al Shiraa claimed.

Whatever the case, critics of the secret operation hold that McFarlane miscalculated badly if by going to Teheran he sought to develop personal contacts with "moderate" elements in Iran. Since the fall of the shah, said William Quandt, a Middle East specialist at the Brookings Institution in Washington and member of the NSC in the Carter administration, any hint that the United States favored a particular Iranian official has been a kiss of death—sometimes literally, as in the case of the executed Foreign Minister Sadegh Ghotbzadeh, who during the 444-day hostage crisis of 1979-81 pursued contacts with Jimmy Carter aide Hamilton Jordan. "The time is not yet right for any Iranian faction to have such a high profile with the West," says Quandt. To suggest that someone more pragmatic might be more pro-American or pro-West is self-delusion, in the view of many experts. "Everybody [in Iran] is anti-American, even if some are more willing to deal with the United States than others," said Gary Sick, another Carter NSC staff member.

Still, some American academics and intelligence experts do give McFarlane credit for trying. James Bill, a prominent Iran scholar at the University of Texas, believes that Iran is at a "critical crossroads" in both its internal politics and its relations with the United States. He detects a "mellowing and modifying" trend, illustrated

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by the recent arrest of Hashemi and others responsible for "encouraging violent acts" in Lebanon, Saudi Arabia and Kuwait. While he would have preferred the use of quiet diplomatic back channels, he nevertheless applauded McFarlane's efforts to establish a dialogue with Iran as "wise and prudent."

No one disputes the strategic importance of Iran itself. With a population of 45 million, a large and willing army of soldiers and militiamen, vast deposits of oil and an economy of enormous potential despite its current disrepair, Iran could be the superpower of the Persian Gulf. Its long border with the Soviet Union and its extensive coastline facing other main oil-producing countries give it unique geopolitical status. Following the Soviet invasion of Muslim Afghanistan, Iran has become militantly anti-Soviet, which creates an opportunity for the United States. "If we lose Iran to the Russians, the world gets cut in half," said former CIA Director Richard Helms, who served as ambassador in Teheran under the shah. "It would be a grievous setback for the United States."

Eventual victory: There was as much risk as prudence in the new attention showered on Iran. Stripped of his reputation as the key power broker in the Middle East, Syrian President Assad might revert to his familiar spoiler's role in regionwide transactions. Even more worrisome is the possible effect on Saudi Arabia and other Arab states that fear both Iran's Islamic militancy and its military prowess. Although the United States is officially neutral in the six-year-old Iran-Iraq war, its announced attempts to cut off Iran's military supplies have always suggested a tilt toward Iraq. Now, despite White House disclaimers, the apparent U.S. willingness to supply Iran could be interpreted as a signal that the United States is willing not only to see other nations sell arms to Iran, but also to contemplate an eventual Iranian victory. The result, said Gary Sick, could be a strong and negative "psychological impact" throughout the Persian Gulf.

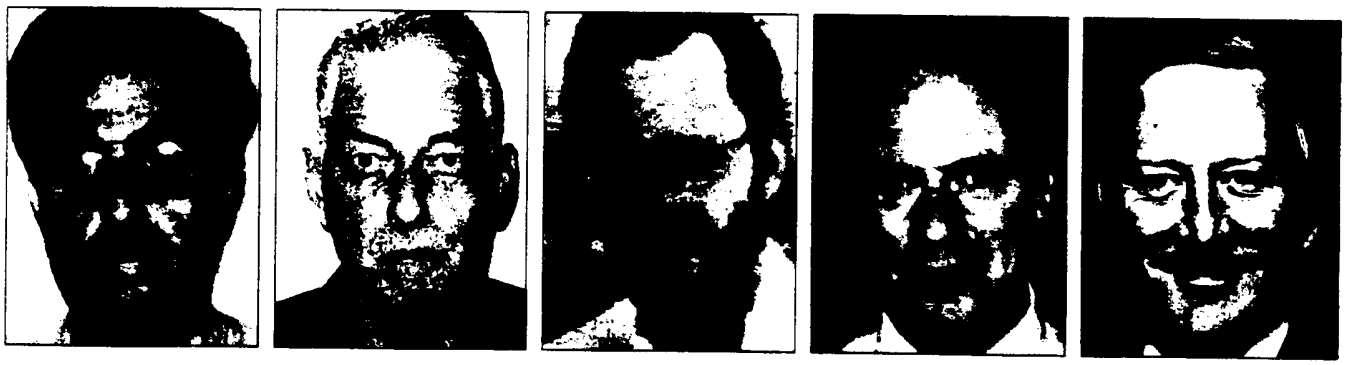
At the same time, Washington's playing of the Teheran card might tempt France to seek a somewhat similar remedy for its own troubles in the Mideast. Islamic militants hold eight French hostages in Lebanon, and the government of Prime Minister Jacques Chirac—like the Reagan administration before—has looked to Syria for help in gaining their release. For that reason France balked at supporting Britain's call for stiff sanctions against Syria after a London court's recent finding that implicated Assad's government in a terrorist attempt on an El Al airliner. Indeed, according to press reports, France has promised to supply Damascus with sophisticated weaponry. But so far Syria has failed to deliver any French hostages, and France may already be reaching toward Teheran. Last month France agreed to repay a $1 billion loan to Iran dating from the shah's days. And at a European Community meeting in London this week, France may agree to all of Britain's proposed sanctions against Syria—though not to the point of breaking relations with Damascus.

In the end, the ones most overlooked in the controversy over the McFarlane mission were the hostages David Jacobsen left behind in Lebanon: Associated Press correspondent Terry Anderson; Thomas Sutherland, dean of agriculture at American University of Beirut; Joseph Cicippio, an AUB accountant; Frank Reed, the head of a private school in Lebanon; Edward Tracy, a children's-book author kidnapped only last month, and William Buckley, a U.S. Embassy officer reported to have been killed. The publicity surrounding the secret missions seemed to be at least a temporary setback to further hostage negotiations. With the Iranians back on center stage and Reagan officials now giving briefings in the wings, the debate over the administration's secret strategy is certain to intensify. But for the moment, the White House was not giving up: on the weekend an emissary was heading across the Atlantic, full of hope. The question was: with the principle of bargaining established, how high a price would the next hostage command.

ANGUS DEMING *with* MILAN J. KUBIC *in Jerusalem*, MARGARET GARRARD WARNER *in Washington*, FRED COLEMAN *in Paris*, CHRISTOPHER DICKEY *in Cyprus and bureau reports*

MOSHEN SHANDIZ—SYGMA

Strapped for spare parts, Teheran slugs it out against Baghdad: *Iranian soldiers at the front*



'Be responsible and back off': *Hostages Cicippio, Tracy, Anderson, Sutherland and Reed, at possible risk from publicity*

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